Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**23. Profitability Mark: /12**

1. Fine Kitchens has sales revenue of £1.2m a year. The gross profit margin is 62% and total expenses £50 400 per annum.
   1. What is Fine Kitchen’s operating profit? /2 marks

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* 1. The marketing manager suggests that the business spends an additional £5 000 on advertising in the local paper. He believes this would increase revenue by 1%, the GPM remains unchanged. What would be the new operating profit? /3 marks

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* 1. The operations manager suggests a better way to improve profit would be to change suppliers. She has found a cheaper supplier that would reduce cost of sales to 40% of revenue. However wages would need to be increased by £10 000 per year as an additional process would be required. What would be the new operating profit? /3 marks

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1. Complete the table below to show TD Ltd's profit and profitability /4 marks

|  |  |
| --- | --- |
|  | Current year (£m) |
| Sales revenue | 21.7 |
| Cost of sales |  |
| Gross profit | 4.34 |
| Gross profit margin |  |
| Expenses | 2.14 |
| Operating profit |  |
| Operating profit margin |  |

To what extent is increasing promotional spend the

best way to increase profitability?